

**CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
(with required supplementary information)**

YEAR ENDED JUNE 30, 2008

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY
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INDEPENDENT AUDITOR'S REPORT

To the Tax Increment Financing
Authority Board
City of Litchfield, Michigan
Litchfield, Michigan

We have audited the accompanying financial statements of the governmental activity and major fund activity of the Tax Increment Financing Authority, a component unit of the City of Litchfield, Michigan, as of June 30, 2008, and for the year then ended. The component unit financial statements are the responsibility of the Tax Increment Financing Authority management, a component unit of the City of Litchfield, Michigan. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activity and major fund activity of the Tax Increment Financing Authority, a component unit of the City of Litchfield, Michigan, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages iii through vi are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2008, on our consideration of the Tax Increment Financing Authority's, a component unit of City of Litchfield, Michigan, internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

Osbourne, March, Condon & Co P.C.

Certified Public Accountants

Hillsdale, Michigan
December 18, 2008

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY (TIFA)

Management's Discussion and Analysis
Year Ended June 30, 2008

The following discussion and analysis of the financial performance for the City of Litchfield, Michigan Tax Increment Finance Authority (the "Authority") provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the Authority's financial statements.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2008:

- Property taxes are the Authority's single, largest source of revenue. The Authority captured millages of the City of Litchfield, Hillsdale County, and Litchfield District Library on \$42,153,207 of the total taxable value for fiscal year ending June 30, 2008, which represents an increase of approximately \$5,910,960 or 16.3 percent. The increase was primarily due to audit results prompting the State Tax Commission to increase several previous year taxable values of a business within the TIFA district.
- TIFA contributed toward the purchase of a fire truck in the amount of \$16,992 to entice businesses to locate inside the TIFA district by providing adequate fire protection.
- The Authority contributed to the City of Litchfield, Michigan \$66,453 more than it did in the previous year. The additional monies were contributed toward the City's downtown streetscape project to promote economic growth in the TIFA district.
- Development expense decreased approximately \$59,000 or 69.4 percent from the previous year primarily due to more housing and industrial park expansion projects in the prior year.

Using the Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide financial statements.

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY (TIFA)

Management's Discussion and Analysis
Year Ended June 30, 2008

The Authority as a Whole

The following table shows, in a condensed format, the net assets as of the current in comparison to prior year:

	Governmental Activities	
	2008	2007
Assets		
Current assets	\$ 2,591,504	\$ 2,025,654
Noncurrent assets	2,396,099	2,345,127
Total Assets	<u>\$ 4,987,603</u>	<u>\$ 4,370,781</u>
Liabilities and Net Assets		
Liabilities:		
Current Liabilities	\$ 68,773	\$ 12,807
Net Assets:		
Invested in capital - no related debt	\$ 612,118	\$ 614,721
Unrestricted	4,306,712	3,743,253
Total Net Assets	<u>\$ 4,918,830</u>	<u>\$ 4,357,974</u>
Total Liabilities and Total Net Assets	<u>\$ 4,987,603</u>	<u>\$ 4,370,781</u>

The Authority's combined net assets increased by approximately 13 percent from a year ago, from \$4.35 million to \$4.92 million.

The increase in unrestricted net assets of approximately \$560,000 was primarily due to audit results prompting the State Tax Commission to increase several previous year taxable values of a business within the TIFA district and will be used for development in the City of Litchfield, Michigan industrial park and housing projects.

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY (TIFA)

Management's Discussion and Analysis
Year Ended June 30, 2008

The following table shows the changes of the net assets during the current year in comparison to prior year:

	Governmental Activities	
	2008	2007
Revenue		
General Revenue:		
Property taxes	\$ 822,456	\$ 543,570
Interest	101,291	97,191
Rental income	33,000	33,000
Other	1,771	
Total Revenue	<u>\$ 958,518</u>	<u>\$ 673,761</u>
Program Expenses		
Development	\$ 25,904	\$ 84,574
Contributions to primary government	291,453	225,000
Contribution to local fire department	16,992	
Professional fees	7,693	
Depreciation	11,473	6,300
Other	44,201	46,408
Total Program Expenses	<u>397,662</u>	<u>\$ 362,282</u>
Change in accounting estimate	<u>\$</u>	<u>\$ 150,000</u>
Change in Net Assets	<u><u>\$ 560,856</u></u>	<u><u>\$ 461,479</u></u>

Governmental Activities

In fiscal year ending 2008, increases experienced in property taxes resulted primarily from audit results prompting the State Tax Commission to increase several previous year taxable values of a business within the TIFA district. A 0.0092 increase in the millage rate of Hillsdale County was the only change in operating millage rates that the Authority captures.

As expected, revenues exceeded expenditures to further develop the industrial park and housing for anticipated community growth in the upcoming years beyond the anticipated revenues for those years. In 2007 and 2008 the Authority continued carrying out various development projects throughout the City of Litchfield.

Operating Highlights

The Authority accounts for all development costs it incurs. The budget in recent years has been developed to continue carrying out a variety of development projects. The budget is developed based on those planned development costs. The budget is monitored closely and amended periodically. The result is that actual revenues and expenses are usually within 10 percent of budgeted amounts.

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY (TIFA)

Management's Discussion and Analysis
Year Ended June 30, 2008

Capital Asset and Debt Administration

At the end of fiscal year 2008, the Authority had approximately \$612,000 (net of depreciation) invested in land and a building that it leases to a local manufacturing business. There is no related infrastructure (that is not under development) reported in the year-end net capital investment. Any infrastructure developed would be capitalized and depreciated by the City of Litchfield, Michigan.

At June 30, 2008 the Authority did not carry on its financial books any outstanding debt obligations.

Economic Factors and Next Year's Budgets and Rates

The City of Litchfield's current economic outlook in the short-term is stable, thus avoiding any necessity in raising millage rates. However, the Litchfield City Administration believes that the recent national and state economic recession could have a major impact on local government budgets. The City of Litchfield and its TIFA will monitor and adjust revenue and expenditures accordingly. Uncertainty in the overall regional economy lends for conservative and cautious budgeting. It is anticipated the City will see a minor decline in the residential, commercial and industrial sectors.

Through a State of Michigan, Department of Transportation program, the City of Litchfield will participate in a streetscape project. This project will require several City funds accounts to contribute to the City's share of the project.

Certain businesses located within the Tax Increment Financing Authority jurisdiction are in the process of appealing their previous year's tax assessments. While no decisions have made possible reimbursements to reflect, some final agreements are in review. Continuous recruitment of businesses will help insure continued success in the City of Litchfield's employment force.

Positive relationships with other boards and commissions will provide streamlined success.

The Authority will continue the industrial park and housing expansion projects during the upcoming fiscal year. The TIFA Board will continue reviewing options and programs to reduce costs to businesses in the industrial park.

There were no significant variances between budget and actual results.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report, or need additional information, or would like to obtain financial statements of the City of Litchfield, Michigan, we welcome you to contact the City of Litchfield's administrative office located at 221 Jonesville Street, Litchfield, Michigan 49252.

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2008

	<u>GOVERNMENTAL ACTIVITIES</u>
ASSETS	
Current Assets:	
Cash	\$ 2,288,858
Investment	224,286
Interest receivable	3,360
Note receivable, current portion	<u>75,000</u>
Total Current Assets	<u>\$ 2,591,504</u>
Noncurrent Assets:	
Note receivable, net of current portion	\$ 719,085
Investment in land and infrastructure development	1,064,896
Capital assets	721,114
Less: accumulated depreciation	<u>(108,996)</u>
Total Noncurrent Assets	<u>\$ 2,396,099</u>
TOTAL ASSETS	<u><u>\$ 4,987,603</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities:	
Accounts payable	<u>\$ 68,773</u>
Net Assets:	
Invested in capital assets, net of related debt	\$ 612,118
Unrestricted	<u>4,306,712</u>
Total Net Assets	<u>\$ 4,918,830</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,987,603</u></u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

	<u>GOVERNMENTAL ACTIVITIES</u>
GOVERNMENTAL ACTIVITY EXPENSES	
Development	\$ (25,904)
Contributions to primary government	(291,453)
Contribution to local fire department	(16,992)
Professional fees	(7,639)
Depreciation	(11,473)
Other	(44,201)
	<hr/>
TOTAL GOVERNMENTAL ACTIVITY EXPENSES	\$ (397,662)
GENERAL REVENUE	
Property taxes, captured for operations	\$ 822,456
Interest	101,291
Lease income	33,000
Other revenues	1,771
	<hr/>
TOTAL GENERAL REVENUES	\$ 958,518
CHANGE IN NET ASSETS	\$ 560,856
NET ASSETS - BEGINNING	<hr/> 4,357,974
NET ASSETS - ENDING	<hr/> <u>\$ 4,918,830</u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY
BALANCE SHEET - GOVERNMENTAL FUND
JUNE 30, 2008

ASSETS	
Cash	\$ 2,288,858
Investments	224,286
Interest receivable	<u>3,360</u>
TOTAL ASSETS	<u><u>\$ 2,516,504</u></u>
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	<u>\$ 68,773</u>
Fund Balance:	
Unreserved, undesignated	<u>\$ 2,447,731</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 2,516,504</u></u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

TAX INCREMENT FINANCING AUTHORITY

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS

YEAR ENDED JUNE 30, 2008

GOVERNMENTAL FUND BALANCE	\$	2,447,731
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and are not reported in the funds

The cost of capital assets is	\$	721,114	
Accumulated depreciation is		<u>(108,996)</u>	
			612,118

Notes and accounts receivable are expected to be collected in future years and are not available to pay for current year expenditures		794,085
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Investments in land are not a current financial resource and are not reported in the funds		<u>1,064,896</u>
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NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u><u>4,918,830</u></u>
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See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

TAX INCREMENT FINANCING AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGETARY COMPARISON - GOVERNMENTAL FUND

YEAR ENDED JUNE 30, 2008

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL TO ACTUAL
REVENUES				
Property taxes	\$ 554,151	\$ 683,907	\$ 822,456	\$ 138,549
Interest	59,607	69,741	101,291	31,550
Sale of land		2,007	2,007	
Lease income	33,000	33,000	33,000	
Loans collected			68,655	68,655
Other revenues			264	264
TOTAL REVENUES	<u>\$ 646,758</u>	<u>\$ 788,655</u>	<u>\$ 1,027,673</u>	<u>\$ 239,018</u>
EXPENDITURES				
Development	\$ 1,942,500	\$ 1,410,500	\$ 124,073	\$ 1,286,427
Contributions to primary government	215,000	325,000	291,453	33,547
Contribution to local fire department		16,992	16,992	
Professional fees	12,000	12,000	7,639	4,361
Other	42,500	66,081	44,201	21,880
TOTAL EXPENDITURES	<u>\$ 2,212,000</u>	<u>\$ 1,830,573</u>	<u>\$ 484,358</u>	<u>\$ 1,346,215</u>
NET CHANGE IN FUND BALANCE	\$ (1,565,242)	\$ (1,041,918)	\$ 543,315	\$ 1,585,233
FUND BALANCE - BEGINNING	<u>1,904,416</u>	<u>1,904,416</u>	<u>1,904,416</u>	
FUND BALANCE - ENDING	<u>\$ 339,174</u>	<u>\$ 862,498</u>	<u>\$ 2,447,731</u>	<u>\$ 1,585,233</u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

TAX INCREMENT FINANCING AUTHORITY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND		\$ 543,315
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental Funds report capital outlays as expenditures, and in the Statement of Activities these costs are allocated over their estimated useful lives as depreciation:		
Capital outlay	\$ 8,870	
Depreciation expense	<u>(11,473)</u>	(2,603)
Collection of long-term receivables is revenue in governmental funds. However, in governmental activities, cash collections reduce long-term receivables		(69,356)
Loans granted are recorded as expense in governmental funds. However, in governmental activities, the loans are reported as notes receivable		25,000
Receipts collected on the sale of investment in land is revenue in governmental funds. However, in governmental activities, cash collected on the sale of land reduces investment in land resulting in a gain (loss)		(500)
Investment in land is an expenditure in governmental funds. However, in governmental activities, the investment is capitalized and recognized as an expenditure when sold		<u>65,000</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 560,856</u>

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Tax Increment Financing Authority conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

FINANCIAL REPORTING ENTITY

The Tax Increment Financing Authority (the "Authority") is organized and incorporated as authorized by and pursuant to the Tax Increment Finance Authority Act, P.A. 450 of 1981, as amended. The Authority is a component unit of the City of Litchfield, Michigan governed by a separate board appointed by the City Council, created to promote economic growth in the City of Litchfield, Michigan.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the Authority. The Authority's government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not included among program revenues are reported instead as general revenue. Note, during the year, the Authority did not receive any program revenues.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the government receives the cash.

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BUDGETS AND BUDGETARY ACCOUNTING

The Authority's procedures in establishing the budgetary data reflected in the financial statements are as follows:

1. The Authority's Board submits to the City of Litchfield's City Council a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year.
5. The budget is adopted on a basis consistent with generally accepted accounting principles, which is the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget as amended by the Authority and approved by City of Litchfield's City Council. The budget is adopted at the fund level.

ENCUMBRANCE ACCOUNTING

Encumbrances for goods and services are documented by requisitions or contracts. Appropriations lapse at June 30 and any encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at June 30, 2008.

PROPERTY TAX

The City of Litchfield, the primary government, bills and collects property taxes and distributes them to the Authority. Properties are assessed as of December 31, and the related real property taxes are levied and become payable on July 1 of the following year for summer taxes and December 1 for winter taxes. Summer and winter taxes are due without penalty if paid by September 14 and February 14, respectively. Delinquent real property taxes are turned over to the County and added to the County tax roll. The County remits all uncollected delinquent real property taxes to the City by June 30. Subsequently, the City remits to the Authority the portion of delinquent real property taxes due to it. Uncollected personal property taxes are not accrued because the date of collection is uncertain.

CAPITAL ASSETS

Capital assets, which include land and buildings, are reported in the government-wide financial statements. The Authority defines capital assets as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of 2 years. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend an asset's life are not capitalized but rather expensed in the period incurred.

Buildings are depreciated using the straight-line method over a fifty year period.

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

BANK DEPOSITS AND INVESTMENTS

Cash includes cash on hand, demand deposits, savings, and certificate of deposits. Investments include municipal mutual funds that are highly liquid.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions. The Authority is covered under the City of Litchfield's commercial insurance as a coinsurer for general liability for the aforementioned risks.

There have been no reported claims to the commercial insurance with respect to the Authority in any of the past three years. Additionally, there were no reductions in coverages obtained through the City of Litchfield's commercial insurance during the past year.

NOTE 2: BANK DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Authority is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The breakdown between deposits and investments for the Authority is as follows:

Cash (checking accounts, savings accounts and certificates of deposits)	\$ 2,288,858
Investment in a money market fund	<u>224,286</u>
Total	<u>\$ 2,513,144</u>

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 2: BANK DEPOSITS AND INVESTMENTS (CONCLUDED)

Deposits

The Authority's deposits were reflected in the accounts of the bank at \$2,425,430. Of that amount, \$801,144 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits Authority funds and assesses the level of risk of each institution; only those with an acceptable estimated risk level are used as depositories.

In October 2008, Congress approved a temporary increase to FDIC coverage to the amount of \$250,000 per official custodian. The coverage will return to \$100,000 effective January 1, 2010.

Investments

Investments are normally categorized to give an indication of the level of risk assumed by the Authority. As of June 30, 2008, the Authority's investment in a money market fund, totaling \$224,281, was rated AAA by Standard & Poor's rating service. Additionally, there is no custodial risk because the fund is not evidenced by securities that exist in physical or book entry form. The Authority believes that its investment in the money market fund is in compliance with Public Acts 196 of 1997. The money market fund is registered with the SEC.

NOTE 3: INVESTMENT IN LAND AND INFRASTRUCTURE DEVELOPMENT

Investment in land represents land developed by the Authority for residential housing and industrial expansion. The Authority anticipates selling the land to developers. Additionally, TIFA is investing in the development of infrastructure in the new residential housing complexes. When the development is complete, the infrastructure will be contributed to the City of Litchfield at which time it will be capitalized and depreciated in the financial books of the City.

NOTE 4: LONG-TERM NOTES RECEIVABLE

In the 2005-2006 fiscal year, the Authority loaned \$100,000 to Newco Industries, Inc. for improvements to the Company's newly acquired operating facility. The terms of the loan require interest only payments commencing on February 1, 2006 through January 1, 2007. Effective February 1, 2007 the Company is required to pay the Authority minimum monthly installments of \$1,700, which includes interest at the rate of 5.0% per annum, through January 31, 2010 at which time any remaining principal is due in full.

\$ 93,933

In the 2004-2005 fiscal year the Authority loaned \$500,000 to Newco Industries, Inc. to acquire land and building located in City of Litchfield. The terms of the loan require the Company to repay the Authority \$400,000 in monthly installments of \$3,680, which includes interest at the rate of 2.0% per annum, effective July 22, 2005 through July 31, 2015; the remaining \$100,000 was forgiven by the Authority as a grant.

351,933

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

NOTE 4: LONG-TERM NOTES RECEIVABLE (CONCLUDED)

The Authority loaned \$102,389 and an additional \$6,935 in fiscal years 2005-2006 and 2006-2007, respectively, to Payseno Builders, a construction contractor, for cost incurred in the construction project of condominiums in City of Litchfield. The terms of the loan require the contractor to repay the Authority in full upon the sale of the condominiums units, interest free. Since these sales will occur on unknown dates imputed interest is indeterminable.

\$ 109,324

In the 2006-07 fiscal year the Authority loaned \$250,000 to Michigan Rebuild and Automation, Inc. (MRA), for the acquisition of its manufacturing facility. The terms of the loan require the company to pay monthly installments of \$1,849, which includes interest at a rate of 4% per annum, effective March 8, 2007 through December 31, 2016, at which time the remaining principal balance plus any accrued interest is due and payable.

222,228

During the year the Authority loaned \$25,000 to the Litchfield Fire Department for the purchase of a fire truck. The terms of the loan require the Fire Department to pay annual installments of \$9,281, which includes interest at a rate of 6% per annum, through July 13, 2010.

16,667

\$ 794,085

Less: current portion of notes receivable

75,000

TOTAL LONG-TERM NOTES RECEIVABLE

\$ 719,085

	<u>7/01/07</u>	<u>Additions</u>	<u>Reductions</u>	<u>6/30/08</u>
Newco 1/31/2010	\$ 100,000	\$	\$ 6,067	\$ 93,933
Newco 7/31/2015	374,033		22,100	351,933
Payseno	109,324			109,324
MRA	244,886		22,658	222,228
Litchfield fire Department	<u> </u>	<u>25,000</u>	<u>8,333</u>	<u>16,667</u>
	<u>\$ 828,243</u>	<u>\$ 25,000</u>	<u>\$ 59,158</u>	<u>\$ 794,085</u>

Following is the maturity schedule of outstanding notes receivable:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 75,000	\$ 21,071	\$ 96,071
2010	138,055	15,774	153,829
2011	53,183	13,175	66,358
2012	54,547	11,809	66,356
2013	55,952	10,405	66,357
2014-2016	308,024	33,472	341,496
Thereafter	<u>109,324</u>	<u> </u>	<u>109,324</u>
	<u>\$ 794,085</u>	<u>\$ 105,706</u>	<u>\$ 899,791</u>

CITY OF LITCHFIELD, MICHIGAN
TAX INCREMENT FINANCING AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
JUNE 30, 2008

NOTE 5: CHANGES IN FIXED ASSETS

A summary of capital assets of the Authority activities was as follows:

	<u>Balance 7/01/07</u>	<u>Additions</u>	<u>Disposals & Adjustments</u>	<u>Balance 6/30/08</u>
Assets not being depreciated:				
Land	\$ 35,000	\$	\$	\$ 35,000
Capital assets being depreciated:				
Building	677,244			677,244
Equipment	<u>8,870</u>	<u>8,870</u>	<u></u>	<u>8,870</u>
	<u>\$ 712,244</u>	<u>\$ 8,870</u>	<u>\$</u>	<u>\$ 721,114</u>
Accumulated depreciation:				
Building	<u>\$ 97,523</u>	<u>\$ 11,473</u>	<u>\$</u>	<u>\$ 108,996</u>
Net Capital Assets	<u>\$ 614,721</u>	<u>\$ (2,603)</u>	<u>\$</u>	<u>\$ 612,118</u>

NOTE 6: LEASES

The Authority leases property to a local manufacturer for \$2,750 per month renewable annually. At year ended June 30, 2008, the Authority recognized lease revenue in the amount of \$33,000.

NOTE 7: CONTINGENCIES

A local manufacturing company, located in the TIFA taxing district, disagreed with personal property tax assessments for a period of several years. The disagreement has been filed by the company with the State of Michigan Tax Tribunal. A reduction in the company's taxable value will result in TIFA's obligation to return a portion of property taxes received in previous years. The potential contingency is indeterminable at this time.

OTHER REPORTS



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GAO GOVERNMENT AUDITING STANDARDS REPORT

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Tax Increment Financing Authority Board
City of Litchfield, Michigan
Litchfield, Michigan

We have audited the financial statements of the governmental activity and fund information of the Tax Increment Financing Authority, a component unit of the City of Litchfield, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 18, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Tax Increment Financing Authority's, a component unit of the City of Litchfield, Michigan, internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tax Increment Financing Authority's, a component unit of the City of Litchfield, Michigan, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*

This report is intended for the information of the Tax Increment Financing Authority Board, City Council, management, and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.

Osbourne, March, Condon & Co P.C.

Certified Public Accountants

Hillsdale, Michigan
December 18, 2008